

# **Report of the auditor-general to the Limpopo provincial legislature and the council on Vhembe District Municipality**

## **Report on the financial statements**

### **Introduction**

1. I was engaged to audit the financial statements of the Vhembe District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 01 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion

### **Basis for disclaimer of opinion**

#### **Property, plant and equipment**

4. The municipality did not have adequate systems in place to maintain records of work in progress. I identified significant differences between the work in progress underlying accounting records and the financial statements. The effect on the financial statements was that work in progress was understated by R356 269 814 (2015: R96 220 105) and accumulated surplus was understated by the same.

5. The municipality did not have adequate systems in place to maintain records of work in progress. I identified a difference of R137 559 256 between the work in progress additions as per the statement of financial position and the underlying accounting records. The effect on the financial statements was that work in progress additions were understated by R 137 559 256 and accumulated surplus was overstated by the same amount
6. The municipality did not transfer completed projects from work in progress to infrastructure assets in accordance with GRAP 17, *Property, plant and equipment*. Completed capital projects to the value of R244 559 174 (2015: R161 456 456) were not unbundled and transferred from work in progress to infrastructure assets. Consequently, infrastructure assets were understated and work in progress was overstated by R244 559 174 (2015: R161 456 456). Additionally, there is a consequential impact on the depreciation for the period and on the accumulated surplus.
7. The municipality did not include infrastructure project in progress amounting to R 129 579 147 in the current year project register and the financial statements as projects in progress from the previous year were not carried over to the current financial year. Consequently, work in progress was understated by R129 579 147 and accumulated surplus was overstated by the same amount.
8. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17 *Property, plant and equipment*. Work in progress amounts were incorrectly recognised at negative values. Consequently, work in progress was understated by R9 702 553. There was a resultant impact on accumulated surplus.
9. The municipality's accounting records did not facilitate easy identification and location of infrastructure assets and work in progress recorded in the financial statements. As a result, infrastructure assets and work in progress included in the financial statements could not be physically verified. Consequently, I was unable to determine whether any adjustments property, plant and equipment balance of R2 301 095 201(2015: R 2 308 078 228) as disclosed in note 9 to the financial statements were necessary.
10. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for additions to work in progress due to the status of the accounting records and non-submission of information in support of these additions. I was unable to confirm the additions by alternative means. Consequently, I was unable to determine whether any adjustments to additions for work in progress stated at R1 179 548 898 in note 9 to the financial statements were necessary
11. Completed capital projects to the value of R 59 408 165 174 were not unbundled in accordance with GRAP 17, *Property, plant and equipment*. Additionally, there is a consequential impact on the depreciation for the period and on the accumulated surplus.
12. The municipality did not adequately assess impairment of property, plant and equipment in accordance with GRAP 21, *Impairment of non-cash-generating assets*. I was not able to determine the impact on the net carrying amount of property, plant and equipment, as it was impracticable to do so. Consequently I was unable to determine whether any adjustment relating to property, plant and equipment stated R2 301 095 201 in the financial statements was necessary.
13. The municipality did not have adequate systems in place to maintain records of movable assets. I identified movable assets amounting to R 14 979 232 belonging to

the municipality that were not included in the underlying accounting records and financial statements. Consequently, I was unable to determine whether any adjustments to the balance of property, plant and equipment stated at R 2 301 095 201 in note 9 to the financial statements were necessary.

14. The municipality's accounting records did not facilitate easy identification and location of movable assets recorded in the financial statements. As a result, movable assets amounting to R8 197 469 included in the financial statements could not be physically verified. Consequently, I was unable to determine whether any adjustments to movable assets stated at R 2 301 095 201 in note 9 to the financial statements were necessary.
15. I identified immovable property being a building belonging to the municipality that was not accounted for in the accounting records. The value of this property could not be determined. Consequently, I was unable to determine whether any adjustments relating to land and building of R56 148 011(2015: R56 622 633) as disclosed in note 9 to the financial statements were necessary.
16. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property, plant and equipment. As described in note 34 to the financial statements, the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustments to the property, plant and equipment corresponding figure stated at R 2 308 078 228 disclosed in note 9 to the financial statements were necessary.

## Cash and cash equivalents

17. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of cash and cash equivalents for the current and prior year due to the status of the accounting records and non-submission of information. I was unable to confirm cash and cash equivalent by alternative means. Consequently, I was unable to determine whether any adjustment to cash and cash equivalent stated at R170 973 041 (2015: R85 883 698) in note 7 to the financial statements was necessary.

## Receivables from exchange transactions

18. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of receivables from exchange transactions for the current year due to non-billing of consumers. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to receivables from exchange transactions stated at R22 061 287 (2015: R59 945 759) in note 4 to the financial statements was necessary.
19. SA Standards of GRAP 104, *Financial Instruments* requires the municipality to first assess whether objective evidence of impairment exists individually for financial assets that are financial significant, and then collectively for financial assets that are not individually significant. The municipality made a provision of R84 298 679 (2015: R17 531 373) for the impairment of receivables from exchange transactions as disclosed in note 4 to the financial statements. However, this impairment was not assessed by the municipality at year end in accordance with GRAP 104, *Financial Instruments*. I was unable to calculate what the impairment charge against receivables

from exchange transactions and impairment losses expense should have been if GRAP 104 had been applied correctly. Consequently, I was unable to determine whether any adjustments relating to receivables from exchange transactions amounting to R22 061 287 (2015: R59 945 759) disclosed in note 4 to the financial statements were necessary.

## Receivables from non-exchange transactions

20. I was unable to obtain sufficient appropriate audit evidence that receivables from non-exchange transactions have been properly accounted for due to the status of the accounting records and non-submission of information. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to receivables from non-exchange transactions amounting to R293 793 452 (2015: R253 914 460) disclosed in note 5 to the financial statements were necessary.

## Payables from exchange transactions

21. I was unable to obtain sufficient appropriate audit evidence that payables from exchange transactions have been properly accounted for due to the status of the accounting records and non-submission of information. I was unable to confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to payables from exchange transactions amounting to R559 577 097 disclosed in note 11 to the financial statements were necessary
22. The municipality did not have adequate systems in place to maintain records of payables. I identified a difference of R61 567 422 between payables from exchange transactions as per the statement of financial position and the underlying accounting records. Consequently, I was unable to determine whether any adjustments relating payables from exchange transactions amounting to R559 577 097 disclosed in note 11 to the financial statements were necessary.
23. The municipality did not have adequate systems in place to maintain records of payables from exchange transactions (local municipalities). I identified a difference of R238 593 529 (2015: R22 001 744) between payables from exchange transactions as per the statement of financial position and the underlying accounting records. The effect on the financial statements was that payables from exchange transactions were overstated and accumulated surplus were understated by R238 593 529 (2015: R22 001 744)

## Value Added Tax

24. During 2015, I was unable to obtain sufficient appropriate audit evidence for Value Added Tax and to confirm the Value Added Tax by alternative means. Consequently, I was unable to determine whether any adjustment to Value Added Tax stated at R40 959 290 was necessary. My audit opinion on the financial statements for the period ended 30 June 2015 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures
25. The municipality did not have adequate systems to maintain records of value added tax. I identified a difference of R16 084 334 between value added tax as per the

statement of financial position and the underlying accounting records. Consequently, I was unable to determine whether any adjustment to vat added tax stated at R42 293 459 (2015: R40 959 290) disclosed in note 6 to the financial statements were necessary.

## Accumulated surplus

26. I was unable to obtain sufficient appropriate audit evidence to confirm the restated balance of accumulated surplus amounting to R2 107 383 055 (2015: R2 131 468 172) as disclosed in the statement of financial position and in the statement of changes in net assets due to supporting documents that could not be obtained for the movement in the balances in the comparative figures. The municipality's records and information available did not permit the application of alternative procedures. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed in accumulated surplus.

## Revenue from exchange transactions

27. I was unable to obtain sufficient appropriate audit evidence that management has correctly charged consumers for all water supplied and accounted for all revenue from water transactions for the current and prior year. Meter readings are not consistently done on a monthly basis which resulted in consumers not being billed. I was unable to confirm revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments to revenue from exchange transactions amounting to R91 578 005 (2015: R87 208 471) disclosed in note 16 to the financial statements were necessary.
28. The municipality charged consumers interest totalling R 15 337 945 without the council approval of the interest rates. Consequently, revenue from exchange transactions and receivables from exchange transactions were overstated by R15 337 945.

## Revenue from non-exchange transactions

29. During 2015, I was unable to obtain sufficient appropriate audit evidence for revenue recognised from conditional grants and to confirm the revenue recognised from conditional grants by alternative means. Consequently, I was unable to determine whether any adjustment to revenue recognised from conditional grants (other income) stated at R1 057 013 292 was necessary. My audit opinion on the financial statements for the period ended 30 June 2015 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures
30. The municipality did not have adequate systems in place to maintain records of revenue from non-exchange transactions. I identified a difference of R 20 252 417 between the amount recognised as revenue from conditional grants and the underlying records. Consequently, I was unable to determine whether any adjustments to other income stated at R 986 782 564 in note 18 to the financial statements were necessary

## Expenditure

31. I was unable to obtain sufficient appropriate audit evidence that management had properly accounted for expenditure incurred due to the status of the accounting

records and non-submission of information in support of this expenditure. I was unable to confirm expenditure incurred by alternative means. Consequently, I was unable to determine whether any adjustments to expenditure amount stated at R 917 161 268 (2015:R986 992 990) were necessary.

## Cash flow statement

32. The municipality did not prepare the cash flow statements in terms of GRAP 2, *Cash flow statements*. Amounts reflected in the cash flow statement could not be reconciled to the underlying records. I was not able to determine the impact on the cash flow statement, as it was impracticable to do so.

## Aggregation of immaterial uncorrected misstatements

33. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items included in the statement of financial position corresponding figures:
- Inventory reflected as R 37 085 021 in note 3 was overstated by R7 769 775
  - Intangible assets reflected as R1 526 885 in note 10 was overstated by R1 479 825

## Commitments

34. I was unable to obtain sufficient appropriate audit evidence for commitments as the Municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment to commitments stated at R 631 501 990 (2015: 697 431 633) in note 42 in the financial statements was necessary.

## Prior period error

35. SA Standards of GRAP 3, *Accounting policies, change in accounting estimates and errors* requires material prior period errors to be corrected retrospectively by restating the comparative amounts for the periods in which the error occurred, disclosing the nature of prior period error, the amount, and financial line item affected. The municipality's disclosure in note 33 to the financial statement does not include all prior error misstatement disclosure in terms of GRAP 3. As a result, the municipality has not complied with SA Standards of GRAP 3.

## Opinion

36. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

## Emphasis of matters

37. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## Significant uncertainties

38. With reference to note 31 to the financial statements, the municipality is a defendant in various legal claims amounting to R 52 278 719. The municipality is opposing claims amounting to R52 278 719 as it believes it has reasonable grounds to defend each claim. The outcome of the legal claims cannot be determined presently.

## Restatement of corresponding figures

39. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

## Material losses/ impairments

40. As disclosed in note 41 to the financial statements, material water losses to the amount of R367 280 806 were incurred as a result of inadequate management of water distribution.
41. As disclosed in note 40 to the financial statements, inventory loss to the amount of R279 268 were incurred as a result of theft of inventory
42. As disclosed in note 40 to the financial statements, losses to the amount of R3 433 420 were incurred as a result of theft and vandalism to municipal property.
43. As disclosed in note 4 to the financial statements, material impairments to the amount of R84 298 679 were incurred as a result of inadequate collection practices.

## Material underspending of the conditional grant

44. As disclosed in note 13 of the statement of financial position, the municipality has materially underspent on conditional grants to the amount of R110 796 850.

## Unauthorised expenditure

45. As disclosed in note 37 to the financial statements, the municipality incurred unauthorised expenditure of R 302 071 369 as a result of expenditure incurred in excess of the amounts provided for in the votes of the approved budget. An amount of R376 174 995 from prior years has not yet been resolved.

## Irregular expenditure

46. As disclosed in note 39 to the financial statements, the Municipality incurred irregular expenditure amounting to R180 679 556 due to the contravention of the supply chain regulations.

## Fruitless expenditure

47. As disclosed in note 38 to the financial statements, the Municipality incurred fruitless and wasteful expenditure amounting to R 2 311 813 due to penalties and interest incurred and payment of salaries while employees are absent from work.

## Financial sustainability

48. Note 35 to the financial statements indicates that the municipality's current liabilities exceeded its current assets by R193 125 360. This condition, along with other matters as set forth in note 36; indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

## Additional matters

49. I draw attention to the matters below. My opinion is not modified in respect of these matter matters

## Withdrawal from the audit engagement

50. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. But for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of the ISAs.

## Unaudited supplementary schedules

51. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## Unaudited disclosure notes

52. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. The disclosure requirements did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## Report on other legal and regulatory requirements

53. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

54. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:
- KPA 1: Basic services and infrastructure: Technical Services on pages x to x
  - KPA 2: Basic services and infrastructure: Community Services on pages x to x
55. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
56. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPi)*
57. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
58. The material findings in respect of the selected objectives are as follows:

### **KPA 1: Basic services and infrastructure: Technical Services**

#### Usefulness of reported performance information

59. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 79% of the reported objectives, 77% indicators, 43% targets were not consistent with those in the approved integrated development plan.
60. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the MSA, and that such a plan remains in force until an integrated development plan is adopted by the next elected council. Material changes were made to the objectives and indicators in the annual performance report, without following the process as prescribed in section 34 of the MFMA.

#### Reliability of reported performance information

61. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and/or technical indicator descriptions for the accurate measurement, recording and monitoring of performance, monitoring of the completeness of source documentation in support of actual achievements and frequent review of the validity of reported achievements against source documentation.

## **KPA 4: Basic services and infrastructure: Community Services**

### Usefulness of reported performance information

62. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives were not consistent with those in the approved integrated development plan.
63. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the MSA, and that such a plan remains in force until an integrated development plan is adopted by the next elected council. Material changes were made to the objectives, indicators and targets in the annual performance report, without following the process as prescribed in section 34 of the MFMA.

### Reliability of reported performance information

64. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and/or technical indicator descriptions for the accurate measurement, recording and monitoring of performance, monitoring of the completeness of source documentation in support of actual achievements and frequent review of the validity of reported achievements against source documentation.

### **Additional matter**

65. I draw attention to the following matters; our conclusion is not modified in respect of these matters.

### Achievement of planned targets

66. Refer to the annual performance report on page(s) x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on usefulness and reliability for the selected objectives reported in paragraph(s) x; x of this report.

### Unaudited supplementary schedules

67. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

## **Compliance with legislation**

68. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### Financial statements, performance and annual reports

69. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatements identified by the auditors in the submitted financial statements were not corrected and the supporting records could not be provided, which resulted in the financial statements receiving a disclaimer of opinion.

70. The oversight report adopted by the council on the 2014/15 annual report was not made public, as required by section 129(3) of the MFMA.

### Budget

71. Expenditure was incurred in excess of the approved budget, in contravention of sections 87(8) of the MFMA.
72. Unforeseen and unavoidable expenditure incurred by the municipality was not approved by the mayor as required by section 29(1) of the MFMA.

### Expenditure management

73. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
74. An effective system of expenditure control, including procedures for the payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
75. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) of the MFMA.

### Procurement and contract management

76. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by supply chain management regulation(SCM Regulation) 13(c).
77. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.

Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

78. The performance of contractors or service providers was not monitored on a monthly basis, as required by section 116 (2)(b) of the MFMA.
79. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management as required by section 116 (2)(c) of the MFMA.
80. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
81. Bids were not always evaluated by bid evaluation committees which were composed of at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
82. Awards were made to a service provider who was in the service of the municipality or whose directors / principal shareholders is in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44.  
  
Furthermore the provider failed to declare that he / she was in the service of the municipality, as required by SCM regulation 13(c)
83. I could not obtain sufficient appropriate audit evidence that goods and services with a transaction value of below R200 000 were procured using price quotations as required by SCM regulation 17(a) and (c).

## Revenue management

84. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
85. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
86. Accounts for municipal services were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.
87. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

## Asset management

88. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
89. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA

## Consequence management

90. Losses resulting from Unauthorised, irregular, fruitless and wasteful expenditure was not always recovered from the liable person, as required by section 32(2)(a) of the MFMA.

91. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

## **Internal control**

92. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for adverse of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

93. The positions of accounting officer and chief financial officer have been vacant for the year under review and officials were seconded from Provincial Treasury to act in these positions. The instability at the level of the accounting officer resulted in a break down in internal controls. Significant findings that were identified during the audit require the accounting officer to hold senior managers accountable.
94. Management did not always provide the required supervision and review over daily and monthly recording and reconciliation of transactions and account balances to ensure that the municipality complies with will applicable financial reporting.
95. Actions plans were developed however, they were not fully implemented, reviewed and monitored during the course of the year and thus the reoccurrence of the findings that were reported on in the prior year

## **Financial and performance management**

96. The municipality did not have a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report.
97. The municipality did not develop an effective system which verifies the accuracy, completeness and the reliability of the reported performance contained in the annual performance report.
98. The financial statements were not reconciled to the underlying records to ensure the accuracy, completeness and reliability of the reported financial results.
99. Monthly reconciliations for financial reporting and compliance with laws and regulations were not subjected to proper review to ensure accuracy, completeness and reliability of the reported financial results.

## **Governance**

100. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

## Other reports

### Investigations

101. On 1 August 2014 the President of the Republic of South Africa signed a proclamation authorising the Special Investigations Unit (SIU) to investigate the maladministration, unlawful and or improper conduct by officials for unlawful appropriation of public funds, irregular expenditure and negligent loss of public funds which took place between 1 May 2010 and the date the date of the Publication of the Proclamation being the 1 August 2014. The investigation is still ongoing at the reporting date.
102. An independent consulting firm performed an investigation at the request of the municipality. The investigation was initiated based on an allegation of financial misconduct against senior employees. The investigation concluded on 17 September 2015 and resulted in disciplinary proceedings being instituted against three employees. These proceedings are currently in progress.

*Auditor - General*

Polokwane

30 November 2016



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*